

Message Text

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E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: GOJ VIEWS ON INTERNATIONAL MONETARY MATTERS

1. SUMMARY: IN JAN 20 NEWSPAPER ARTICLE, MOF INTL FIN BUR
DIR GEN MASAO FUJIOKA EMPHASIZES NEED FOR JAPAN TO ASSUME
INCREASINGLY HEAVY RESONSIBILITY IN THE CREATION AND
MAINTENANCE OF WORLD ECONOMIC ORDER; POINTEDLY NOTES PROVI-
SIONS OF REVISED IMF ARTICLES LEAVING IT UP TO EACH NATION TO
DECIDE WHAT EXCHANGE RATE ARRANGEMENT TO ADOPT; AND SAYS
INTL DISCUSSIONS OF BALANCE OF PAYMENTS PROBLEMS SHOULD BE
BASED ON CURRENT ACCOUNT POSITIONS RATHER THAN JUST TRADE
ACCOUNTS, AND ALSO ON BASIC BALANCE FOR COUNTRIES LIKE JAPAN
WHICH TEND TO HAVE DEFICITS ON LONG-TERM CAPITAL. END SUMMARY.

2. FOLLOWING IS TEXT OF FUJIOKA ARTICLE, WHICH APPEARED IN
ENGLISH-LANGUAGE JAPAN TIMES SUPPLEMENT ON WORLD ECONOMIC
ORDER THURS, JAN 20, 1977. SUPPLEMENT BRINGS TOGETHER VIEWS
OF A NUMBER OF GOVT AND PRIVATE INDIVIDUALS ON ECONOMIC
MATTERS OF INTL INTEREST. BEGIN TEXT:

"IT IS FIVE YEARS SINCE THE COLLAPSE OF THE BRETTON WOODS
SYSTEM, WHICH WAS THE BIGGEST EVENT IN POSTWAR MONETARY
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HISTORY, AND THREE YEARS SINCE THE OUTBREAK OF OIL
CRISIS IN LATE 1973. THE WORLD ECONOMY HAS NOW ENTERED A
NEW AGE.

WITH THE JAMAICA AGREEMENT LAST YEAR THE WORLD MONETARY
SYSTEM TOOK ONE STEP IN A NEW DIRECTION. THE WORLD RECES-
SION THAT FOLLOWED THE OIL CRISIS WAS SAID TO BE THE SEVEREST

ONE IN 40 YEARS, BUT IT IS ABOUT TO END AND THE WORLD ECONOMY IS NOW FIRING ITS GROUND FOR RECOVERY.

MEANWHILE, IN THE WORLD'S BALANCE OF PAYMENTS, A STRUCTURAL IMBALANCE CONTINUES IN WHICH OIL PRODUCING STATES ACCUMULATE HUGE SURPLUSES WHEREAS NON-OIL PRODUCING DEVELOPING COUNTRIES PILE UP DEFICITS. AT THE SAME TIME, SOME INDUSTRIALIZED NATIONS ARE SUFFERING FROM HUGE DEFICITS AND ITS ADJUSTMENT IS NOW A MAJOR WORLD ISSUE.

UNDER THESE CIRCUMSTANCES, JAPAN HAS RECOVERED AN EQUILIBRIUM IN ITS BOP AND REGAINED THE CONFIDENCE OF THE WORLD DESPITE THE FACT THAT THIS COUNTRY WAS HARDEST HIT BY THE OIL CRISIS.

SINCE JOINING THE POSTWAR INTL MONETARY COMMUNITY, JAPAN HAS BEEN EXPERIENCING A LONG TURNING POINT. LOOKING BACK AT THE RECENT EVENTFUL YEARS, I SHOULD LIKE TO DISCUSS JAPAN'S STAND THAT FACES A NEW ERA.

FIRSTLY, I SHOULD LIKE TO POINT OUT THAT INTL COOPERATION WILL PLAY AN INCREASINGLY VITAL PART IN THE ASPECT OF CURRENCY. THE NEW MONETARY SYSTEM THAT WAS CREATED IN JAMAICA IS ONLY A SKELETON AND THE WORLD HAS TO DISCUSS HOW TO PUT FLESH ON IT AND HOW TO OPERATE IT.

AN EXAMPLE IS THE EXCHANGE RATE SYSTEM. THE U.S. AND FRANCE PUT AN END TO THEIR PHILOSOPHICAL DISPUTE AND REACHED A COMPROMISE ON THIS MATTER. WHEN THE SECOND AMENDMENT TO

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THE IMF AGREEMENT SHOULD GO INTO FORCE, IT WOULD BE UP TO EACH NATION TO DECIDE WHAT EXCHANGE RATE ARRANGEMENT TO ADOPT.

THERE IS AN OPINION FAVORING THE SO-CALLED CLEAN FLOAT THAT BARS THE MONETARY AUTHORITIES FROM INTERVENING IN THE EXCHANGE MARKET. THERE IS ANOTHER OPINION THAT PLACES EMPHASIS ON A STABILIZED EXCHANGE RATE. THERE ARE ALSO INTERMEDIATE VIEWS AND THEIR VARIATIONS.

BESIDES THE EXCHANGE RATE SYSTEM, THERE ARE SUCH VITAL INTL MONETARY PROBLEMS AS THE DEVELOPMENT OF MAIN RESERVE ASSETS. ASSET SETTLEMENTS, THE MANAGEMENT OF INTL LIQUIDITY AND THE CONTROL ON DISRUPTIVE CAPITAL MOVEMENTS. NO CONCLUSION HAS BEEN REACHED ON THEM YET. SOME OF THEM HAVE NOT EVEN BEEN TAKEN UP FOR DISCUSSION.

WHEN THE IMF MACHINERY WAS IN ORDERLY SHAPE AND THE U.S. SUSTAINED THE WORLD MONETARY SYSTEM ALMOST SINGLE-HANDEDLY, INTL COOPERATION IN THE ASPECT OF CURRENCY WAS EASILY

ATTAINED. TODAY THE WORLD MONETARY SYSTEM IS SUPPORTED
BY THE MAJOR POWERS IN ACCORDANCE WITH THE EXTENT OF
THEIR ECONOMIC STRENGTH.

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THE FRAMEWORK OF THE PRESENT MONETARY SYSTEM IS SO
FLEXIBLE AND FLUID THAT IT IS ALL THE MRE NECESSARY FOR
THE WORLD TO CREATE AN ORDER AND TRY TO MAINTAIN IT THROUGH
COOPERATION.

AS JAPAN'S STATUS IN THE WORLD ECONOMIC COMMUNITY
RISES, THIS COUNTRY HAS TO ASSUME AN INCREASINGLY HEAVY
RESPONSIBILITY IN THE CREATION AND MAINTENANCE OF A WORLD
ORDER.

THE DAYS ARE GONE WHEN JAPAN WAS ALLOWED TO THINK ONLY
OF ITSELF. FROM NOW ON JAPAN WILL BE ASKED TO JOIN OTHER
MAJOR POWERS IN STUDYING HOW TO OPERATE THE WORLD ECONOMY
MOST EFFECTIVELY IN THE SPIRIT OF INTL COOPERATION.

SECONDLY, I SHOULD LIKE TO REFER TO THE PROMOTION
OF FREE TRADE. PNTL COOPERATION SHOULD NOT BE CONFINED
TO THE ASPECT OF MONEY BUT BE EXPANDED TO TRADE, THE NORTH-
SOUTH ISSUE AND ECONOMIC POLICY IN GENERAL. IN THE MIDDLE
OF LAST YEAR, THERE WERE CRITICISMS IN SOME QUARTERS OF
THE U.S. THAT JAPAN WAS INTENTIONALLY HOLDING DOWN THE
VALUE OF THE YEN. THESE PROBLEMS
WERE CLEARLY BASED ON A
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MISUNDERSTANDING. JAPAN ANSWERED THEM WITH FACTS AND THEY SOONDISAPPEARED.

LATE LAST YEAR, A TRADE ISSUE CAME TO THE FORE BETWEEN JAPAN AND THE EC NATIONS. IT IS SAID THAT BEHIND THE U.S. CRITICISMS OF JAPAN'S YEN WAS AMERICAN DISCONTENT WITH THIS COUNTRY'S TRADE POLICY AND COUPLED WITH AMERICAN COMMERCIAL INTERESTS.

THE SHARP RISES IN OIL PRICES PUSHED JAPAN'S OIL BILLS FROM ABOUT \$6,000 MIL IN 1973 TO \$19,000 MIL THE FOLLOWING YEAR, AN INCREASE OF AS MUCH AS \$13,000 MIL. TODAY JAPAN'S OIL BILLS ACCOUNT FOR A THIRD OF ITS IMPORTS.

IN SPITE OF SUCH AN ORDEAL, JAPAN HAS SUCCEEDED IN OVERCOMING THE OIL CRISIS WITH THE AID OF NATL DILIGENCE AND, AMONG OTHERS, THROUGH THE ADOPTION OF A SOUND DOMESTIC ECONOMIC POLICY ON THE PRINCIPLE OF FREE TRADE WITHOUT RECOURSE TO SUCH PROTECTIONIST MEASURES AS EXPORT PROMOTION DRIVES AND IMPORT RESTRICTIONS.

AT A SESSION OF THE IMF COMMITTEE OF 20 HELD IN ROME IN JAN 1974 IMMEDIATELY AFTER THE OIL CRISIS, THE NATIONS PLEDGED NOT TO RESORT TO A 'BEGGAR MY NEIGHBOR' POLICY. AT THE OECD MINISTERIAL MEETING HELD SUBSEQUENTLY, THE NATIONS PROMISED TWICE NOT TO ADOPT ANY PROTECTIONIST POLICY.

IT IS REGRETTABLE THAT, DESPITE THESE PLEDGES, THERE ARE PROTECTIONIST MOVES IN SOME INDUSTRIALIZED COUNTRIES.

SINCE EARLY LAST YEAR JAPAN'S EXPORTS HAVE BEGUN TO INCREASE ON THE STRENGTH OF THE OVERSEAS BUSINESS RECOVERY. ON THE OTHER HAND, JAPAN'S IMPORTS DID NOT INCREASE APPRECIABLY BECAUSE THE INVENTORY OF IMPORTED RAW MATERIALS HAD REMAINED IN HIGH LEVELS. AS A CONSEQUENCE, JAPAN'S TRADE SURPLUS INCREASED.

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CLEARLY THIS WAS A TEMPORARY EXPANSION IN SURPLUSES DERIVING FROM A TIME LAG IN THE PERFORMANCE OF DOMESTIC AND OVERSEAS BUSINESS AND SUCH SURPLUSES ARE BOUND TO SHRINK IN DUE TIME.

THE TRADE SURPLUS IS A MUST FOR THE JAPANESE ECONOMY, FOR JAPAN SUFFERS ANNUALLY A CHRONIC DEFICIT OF \$6,000

MIL-\$7,000 MIL IN ITS INVISIBLE TRADE (PAYMENTS OF FREIGHT, INSURANCE AND OVERSEAS TRAVEL EXPENSES, ETC.) SOME NATIONS MAY BE ABLE TO COVER THEIR TRADE DEFICITS WITH SURPLUSES IN INVISIBLE TRADE.

I AM OF THE OPINION THAT THE ISSUE OF A COUNTRY'S BOP SHOULD BE DISCUSSED ON THE BASIS OF ITS CURRENT ACCT THAT INCLUDES BOTH VISIBLE AND INVISIBLE TRADE. PARTICULARLY IN THE CASE OF JAPAN, WHICH TENDS TO MARK DEFICITS IN ITS LONG-TERM CAPITAL TRANSACTIONS LIKE OVERSEAS INVESTMENT AND ECONOMIC COOPERATION, THE QUESTION SHOULD BE DISCUSSED ON THE BASIS OF ITS BASIC BOP (CURRENT TRANSACTIONS PLUS LONG-TERM CAPITAL TRANSACTIONS).

I AM ALSO OF THE VIEW THAT SINCE THE BOP STRUCTURE DIFFERS FROM ONE COUNTRY TO ANOTHER, THE QUESTION SHOULD BE DISCUSSED ON A GLOBAL, NOT BILATEAL, BASIS.

THE TRADE PROBLEM THAT AROSE LATE LAST YEAR BETWEEN JAPAN AND THE EUROPEAN COMMUNITY (EC) NATIONS DEVELOPED INTO A POLITICAL ISSUE AFTER SPECIFIC JAPANESE EXPORTS HAD BEEN CONCENTRATED ON CERTAIN AREAS IN EUROPE. THIS IS UNDER-

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STANDABLE SINCE IT CAME AT A TIME WHEN BUSINESS WAS STAGNANT AND THE UNEMPLOYMENT WAS RISING IN THE EC NATIONS.

JAPAN REACTED TO THE EC REQUESTS IN THE SPIRIT OF INTL COOPERATION. I HOPE THAT THE INDUSTRIALIZED NATIONS, VITALLY RESPONSIBLE FOR THE DEVELOPMENT OF THE WORLD

ECONOMY, WILL HAVE COURAGE AND WISDOM THAT CAN RESIST DOMESTIC TEMPTATIONS AND ABIDE BY THE PRINCIPLE OF FREE TRADE AS THEY HAVE OFTEN PLEDGED.

THIRDLY, I SHOULD LIKE TO CALL YOUR ATTENTION TO THE IMPORTANCE OF INTL FINANCE. AT THE ANNUAL MEETING OF THE IMF IN MANILA LAST FALL, THE IMF MANAGING DIRECTOR, MR. WITTEVEEN, CALLED ON THE NATIONS TO SHIFT EMPHASIS FROM FINANCING TO ADJUSTMENT BECAUSE THREE YEARS HAVE ALREADY PASSED SINCE THE OIL CRISIS. I THINK THAT THIS RECOGNITION IS FUNDAMENTALLY CORRECT.

I AM CONCERNED, HOWEVER, THAT IF ADJUSTMENT IN THE BPO AMONG THE INDUSTRIAL NATIONS ALONE WAS CARRIED OUT IN HASTE WHEN THE OIL PRODUCERS' SURPLUSES ARE ESTIMATED AT MORE THAN \$40,000 MIL, THE RESULT MIGHT BE A FREE-FOR-ALL IN WHICH THE NATIONS TRY TO FORCE DEFICITS ON OTHERS.
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GENERALLY SPEAKING, ADJUSTMENT IN THE BOP TAKES A CERTAIN LENGTH OF TIME. APART FROM THE ERRONEOUS VIEW THAT A CLEAN FLOAT IN EXCHANGE RATES CAN BRING ABOUT THE INTENDED ADJUSTMENT IN A SHORT PERIOD OF TIME, WE STILL SEE THE NEED FOR EXTENDING FINANCES DURING AN ADJUSTMENT PERIOD.

RECENTLY, JAPAN RAISED BY YEN90,000 MIL TO YEN340,000 MIL (ABOUT 1,000 MIL SDRS) THE AMOUNT OF CREDIT ARRANGEMENT WITH THE IMF UNDER THE GENERAL AGREEMENT TO BORROW (GAB). THIS DEMONSTRATES JAPAN'S STANCE TOWARD INTL COOPERATION IN THE AREA OF FINANCE.

TO REDUCE THEIR DEFICITS, THE GAB PARTICIPANTS SHOULD ADOPT A SOUND DOMESTIC ECONOMIC POLICY INSTEAD OF RESORTING TO IMPORT RESTRICTIONS. TO SUPPORT SUCH A SERIOUS EFFORT, INCREASING IMPORTANCE SHOULD BE ATTACHED TO THE INCREASE IN THE AMOUNT OF IMF CREDITS AVAILABLE AND THE CONDITIONALITY OF SUCH CREDITS.

I HOPE TO SEE INTL FUNDS CHanneled MORE SMOOTHLY IN THE PRIVATE SECTOR AS WELL. SINCE THE OIL RFIS JAPAN HAS BEEN COVERING ITS BPO DEFICITS WITH INCREASED SHORT-TERM BANK CREDITS, WHICH TODAY TOTAL ABOUT \$30,000 MIL.

IN ORDER TO CURB FURTHER INCREASES IN THOSE DEBTS, WE HAVE BEEN MAKING PREPARATIONS FOR APPLICATION OF A RESERVE REQUIREMENT SYSTEM AGAINST BANKS' FOREIGN DEBTS SIMILAR TO ONE THAT IS ADOPTED IN OTHER INDUSTRIAL NATIONS. WITH THE OUTLOOK FOR SUCH A BRAKE BECOMING CLEAR, WE HAVE RELAXED

RESTRICTIONS ON THE BANKS' OVERSEAS LOANING.

TODAY, DIRECTLY OR IN PORTFOLIO, NON-RESIDENTS' INVESTMENT IN JAPAN IS PRACTICALLY FREE. IN PRINCIPLE, JAPAN'S INVESTMENT OVERSEAS IS ALSO FREE. IN RETURN FOR UNCLASSIFIED

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THE INCREASE IN THE BANK'S SHORT-TERM FOREIGN DEBTS, LONG-TERM BORROWING BY JAPAN'S LEADING BUSINESSES WILL CONTINUE TO INCREASE IN THE YEARS AHEAD.

IN THE FOURTH QUARTER OF LAST YEAR, BRAZIL, DENMARK AND SINGAPORE RAISED FUNDS ON THE TOKYO MARKET IN THE FORM OF YEN DENOMINATED BOND FLOTATION. MORE ISSUES ARE SCHEDULED TO FOLLOW SUIT EARLY THIS YEAR.

IT IS THUS EXPECTED THAT JAPAN WILL PLAY AN INCREASINGLY ACTIVE INTL ROLE IN THE AREA OF FINANCE AND CAPITAL." HODGSON

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